DOCUMENT RESUME

ED 243 211 EA 016 706

AUTHOR Sederberg, Charles H.
TITLE Impact of Decremental State Budgeting on Elementary/Secondary Education--A Case Study.
PUB DATE Apr 84
NOTE 44p.; Paper presented at the Annual Meeting of the American Educational Research Association (New Orleans, LA, April 23-27, 1984).
PUB TYPE Reports - Descriptive (141) -- Speeches/Conference Papers (150)

EDRS PRICE MF01/PC02 Plus Postage.
DESCRIPTORS *Budgeting; *Budgets; Case Studies; Educational Finance; Elementary Secondary Education; Finance Reform; *Financial Problems; Politics of Education; Resource Allocation; State Action; *State Aid
IDENTIFIERS *Minnesota

ABSTRACT

This study examines the results of decremental state budgeting on Minnesota elementary and secondary education during the 1981-83 biennium, a period of sudden fiscal crisis. Using the fiscal reports of various departments of Minnesota State government and interviews with state officials, the author narrates the sequence of revenue shortfalls and official responses, focusing on changes in allocation for schools at various times in the rebudgeting process. The background of the crisis is outlined in explanations of the stages of Minnesota's biennium budget cycle and of the political and fiscal forces surrounding the worsening condition of the state budget. For the purpose of comparing the projected school allocations, the Minnesota school finance system is described and a revenue plan model is constructed. This model is then applied at five stages of the budget crisis as school allocations changed, showing the areas chosen for cuts in state aid. Conclusions are drawn about weaknesses in the Minnesota finance system and their impact on school finance in the 1981-83 biennium. (JW)

****
* Reproductions supplied by EDRS are the best that can be made *
* from the original document. *
****

U.S. DEPARTMENT OF EDUCATION
NATIONAL INSTITUTE OF EDUCATION
EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)

X This document has been reproduced as received from the person or organization originating it.

Minor changes have been made to improve reproduction quality.

• Points of view or opinions stated in this document do not necessarily represent official NIE position or policy.

"PERMISSION TO REPRODUCE THIS MATERIAL HAS BEEN GRANTED BY

Charles H. Sederberg

TO THE EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)."

ED243211

Impact of Decremental State Budgeting on Elementary/Secondary Education--A Case Study

by

Charles H. Sederberg

Center for Educational Policy Studies
College of Education
University of Minnesota

A Paper Presented

to

American Educational Research Association

New Orleans, Louisiana
April, 1984

EA 016 706

Foreword

I wish to express appreciation to 1) the University of Minnesota for supporting this research by granting a leave during Fall Quarter 1982 and 2) to the many elected and appointed officials who gave patient explanations of procedures, assisted in collection of data and interpreted events with honesty and candor. Selection of data and viewpoints expressed were guided by the purpose of the study; assessing the impact of the state fiscal crisis on elementary/secondary education during the 1981-83 Biennium. Detailed study of the economic forces, the political process and impact on other public services must be the work of other researchers. While efforts have been made to utilize many suggestions, the synthesis and any errors of interpretation are the responsibility of the author.

C.H.S.

Executive Summary

During the 1979-81 and 1981-83 Bienniums Minnesota experienced a $2 billion revenue shortfall. It affected budgets of $7.4 billion and $8.7 billion for the two successive periods with the greatest impact during the 1981-83 Biennium. Property tax relief measures and over-indexing of the state income tax contributed to the shortfall, but the main causal factor was the national recession. The recession had its most severe impact on both the agricultural and mining sectors of the state economy. Dealing with the fiscal crisis was exacerbated by 1) policies calling for state funding of a major share of public services, 2) the severity of the recession (Minnesotans had come to regard their diversified economy as somewhat recession proof), and 3) the Executive and Legislative branches of state government being controlled by opposing political parties. The fiscal crisis led to decremental budgeting that impacted all public services including elementary/secondary education, which was the focus of this case study.

Facing a significant revenue shortfall with a constitutional prohibition on deficit spending, Minnesota had the following options:

1) Increase taxes.
2) Shift tax revenue recognition from a subsequent year in the next biennium to the current year.
3) Decrease spending.
4) Shift recognition of expenditure from the current year to a subsequent year in the next biennium.
5) Shift state obligations to local government with access to other tax sources.
6) Short-term borrowing for cash flow.

Minnesota did "all of the above" through executive recision and legislative action in four (out of six) special legislative sessions called specifically to address the state budget crisis. Use of these measures had both direct and indirect impact on the resources available for Minnesota elementary/secondary education during the 1981-83 Biennium.

The net effect of decremental budgeting decisions on elementary/secondary education during the 1981-83 Biennium were as follows:

1) Property tax levies increased $103.1 million as State obligations were shifted to local districts.
2) Property tax revenue of $237.6 million to be recognized as revenue by local districts in FY 1984 was shifted to FY 1983 to be used in lieu of revenue from the state.
3) State school aids to local districts were cut $115.8 million without replacement revenue.
4) State school aid payments in the amount of $86.2 million on FY 1983 local district entitlements were shifted to the 1983-85 Biennium through a change in the prior year adjustment provision.

5) State direct expenditures (State Department of Education and employer share of teacher retirement) were cut $41.2 million.
6) State share of total allocations for public elementary/secondary education dropped to 61.9 percent from 72.8 percent based on the Governor's initial biennial budget proposal.

Introduction

This case examined the impact of decremental state budgeting on Minnesota elementary/secondary education during the 1981-83 Biennium. During that period, the state's established pattern of incremental budgeting was disrupted by a sudden and severe fiscal crisis. The study method adapted qualitative procedures proposed by Patton (1972). Its framework was bounded by state educational politics as described by Wirt and Kirst (1982), public budgeting as a political process (Wildavsky, 1974) and school finance reform increasing state share to achieve equity (Guthrie, Ed., 1980).

A definitional distinction was made between a "budget" and the "budgeting process." A budget was defined as a set of data which records proposed or adopted allocative decisions in terms of resources available (revenue plan), anticipated services and materials to be acquired (expenditure plan), and goals to be accomplished (program plan) during a specified period of time (fiscal year or biennium). The public budgeting process, on the other hand, was defined as a political process in which actors (elected officials, appointed officials, technical staff, and lobbyists) representing constituencies (geographic populations, coalitions, and interest groups) identify, define, and prioritize social needs and preferences (education, welfare, public safety, transportation, etc.) and decide a) how much resources will be allocated from the total economy, b) how those resources will be collected (income, sales, property, and other taxes), and c) how those resources will be appropriated to programs addressing the identified social needs and preferences.

The case record included the following:

1) An outline of Minnesota state budget cycle procedures (Sederberg, The Minnesota State Biennium Budget Cycle, 1983).
2) A chronology documenting revenue shortfalls, executive branch actions, legislative responses and other events (Sederberg, Chronology of Minnesota's Fiscal Crisis July 1, 1979 through December 31, 1982, 1983).
3) A file of all bills affecting the state budget and elementary/secondary education, the Governor's proposed budget, Governor's office news releases, Department of Finance fund balance analyses and financial reports, State Department of Education property tax levy authorizations and certification printouts and state aid disbursement data and miscellaneous documents.
4) An analysis of changes in allocations for elementary/secondary education at selected points in time during the decremental budgeting process (Sederberg, State Revenue Shortfalls and Resource Allocation for Minnesota Elementary/Secondary Education during the 1981-83 Biennium, 1983) and
5) Notes from interviews with the Governor, Senate Majority Leader, Speaker of the House, lobbyists, and staff from the Department of Education conducted by the author.

This paper constitutes a case narrative. Data and interpretations are synthesized in sections dealing with 1) Minnesota's biennial budget cycle, 2) political and fiscal background of the 1981-83 crisis, 3) the Minnesota school finance system, 4) the model for analyzing the impact of decremental budgeting decisions, 5) results of the study, and 6) conclusions.

Minnesota's Biennial Budget Cycle

Minnesota employs some very old traditions in deciding who gets what. The separation of powers incorporated into state constitutional government evolved over several centuries in England as unilateral taxing power was wrested from the king, the forerunner of our present-day executive branch. From the separation of powers come three principles that shape the budgeting process:

1) the executive branch prepares the budget,
2) the legislative branch approves the budget, and
3) the executive branch implements the approved budget.

Responding to constitutional provisions, statutes and regulations implementing these principles for successive fiscal periods results in a four stage budget cycle; preparation, adoption, implementation and audit.

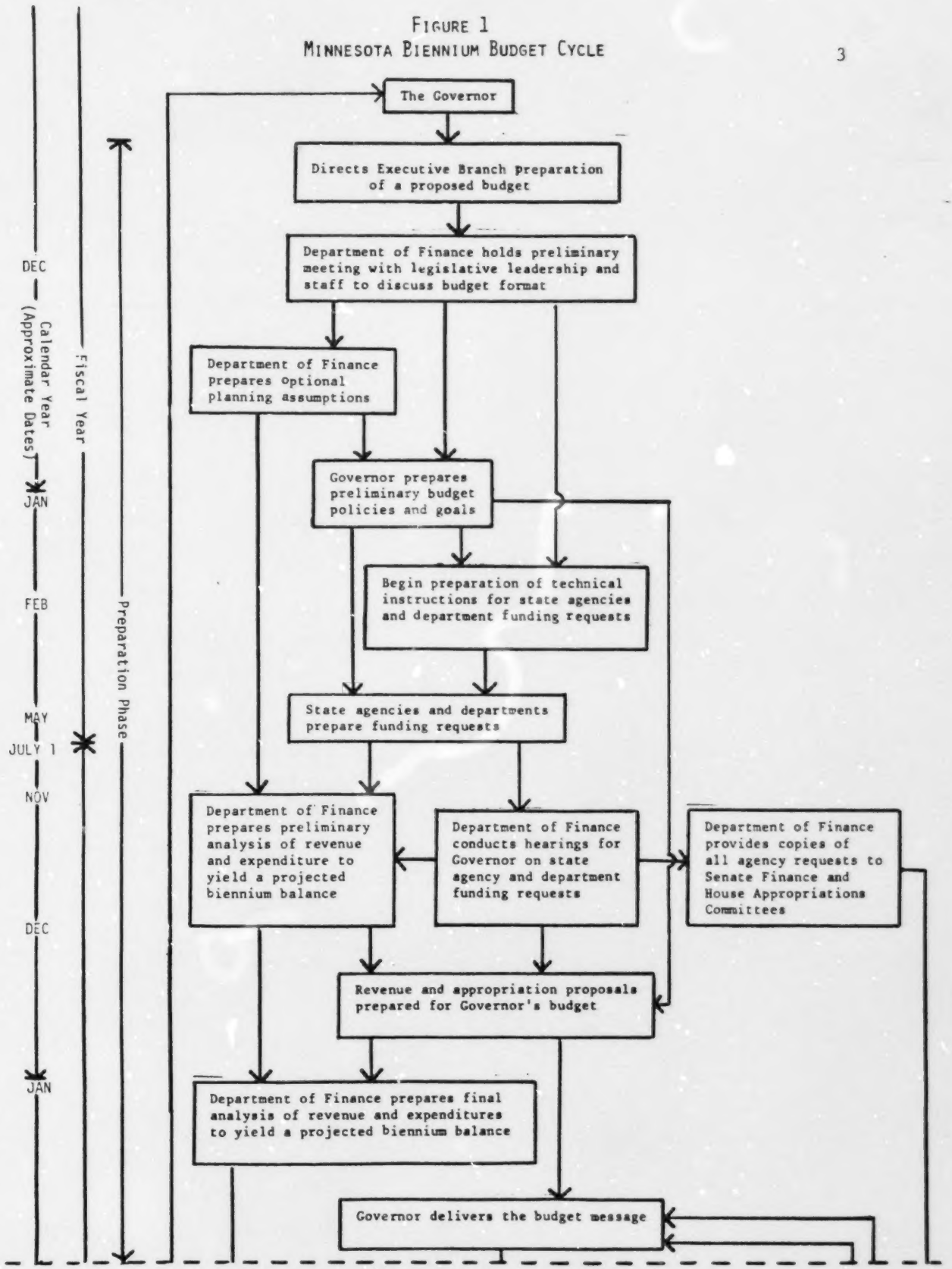
Public budgeting, like spectacles played in other arenas, is better understood if the rules of the game are known. Procedures for the Minnesota biennial budget cycle are summarized in the flowchart presented in Figure 1. The flowchart is somewhat misleading in that the straight lines and orderly boxes suggest a rational step-by-step approach that fails to capture the dynamics of the political process. The flowchart should be regarded as more of a compass than a map; it shows direction of travel but does not indicate obstacles and features along the route.

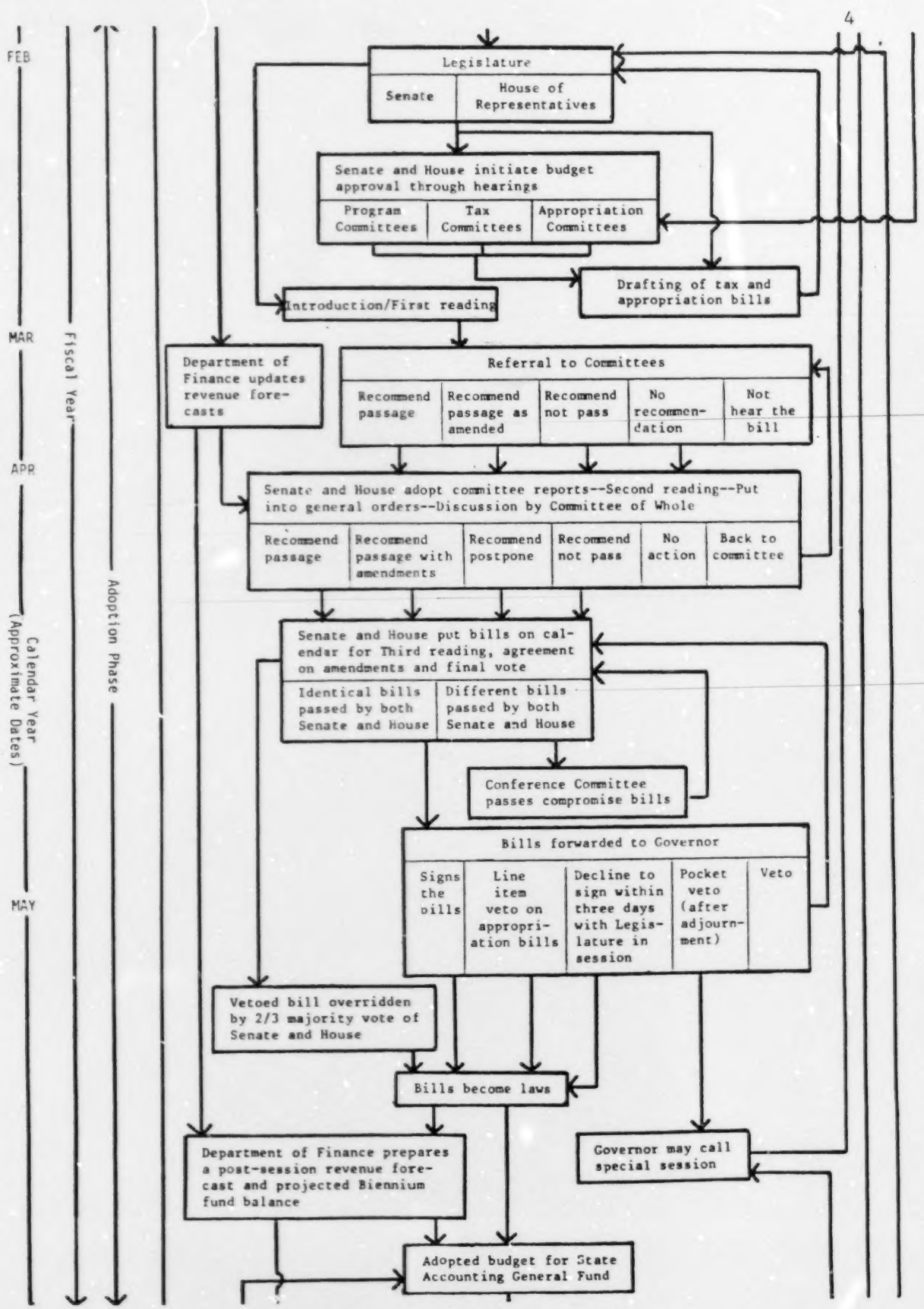
Political and Fiscal Background

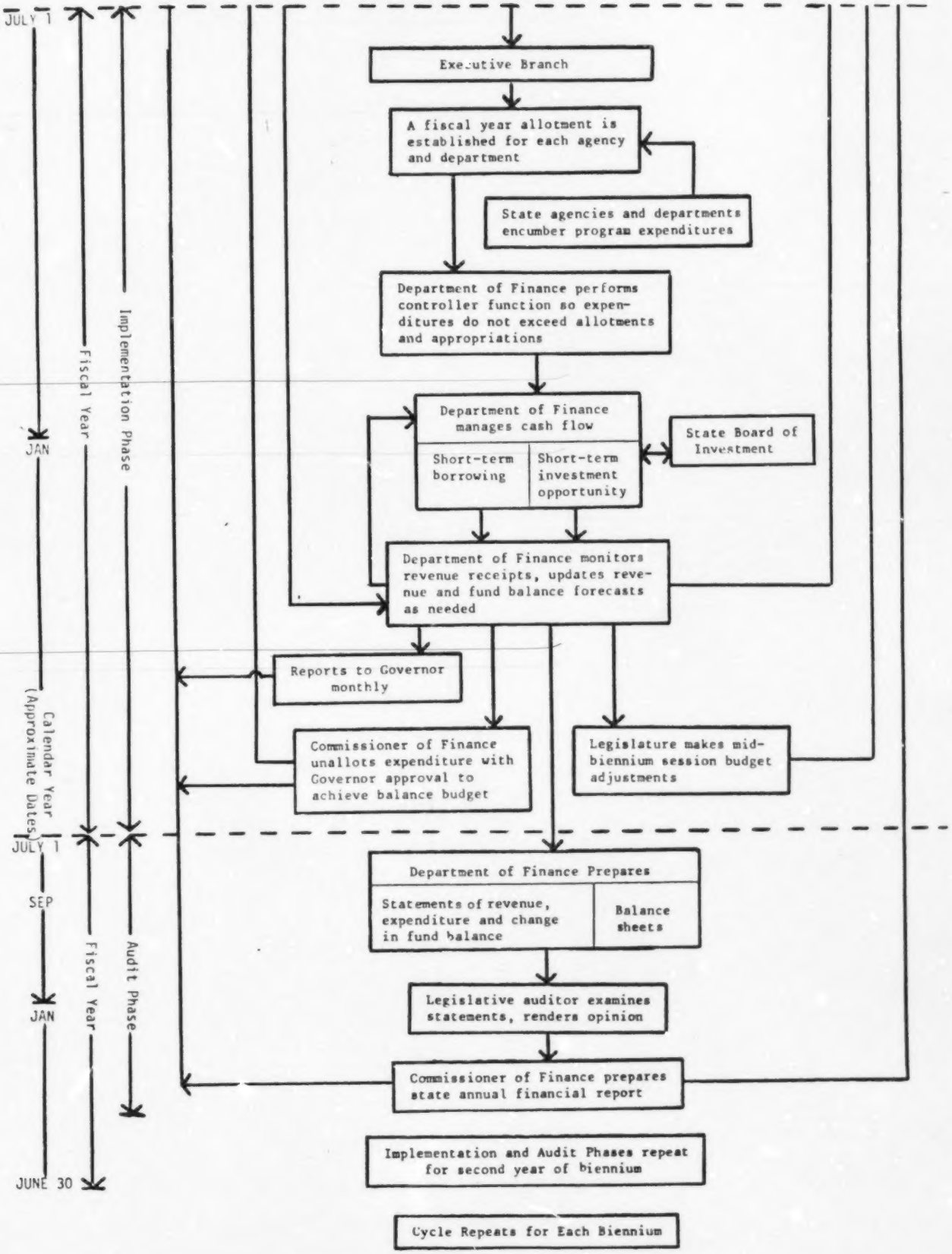
Minnesota experienced a $2 billion revenue shortfall affecting $7.4 and $8.7 billion state general fund budgets for the 1979-81 and 1981-83 Bienniums (Peak and Wilson, 1983, p. 5). Greatest impact came during the 1981-83 Biennium when four (of six) special legislative sessions were called to deal with budget crises. Elementary/secondary education was affected by several decremental budgetary measures.

Interactions of political and fiscal factors were apparent in both the state-level crisis and budgetary responses. During the early 1970's Minnesota politics were dominated by the Democratic Farmer Labor (DFL) Party. In 1976, DFL Governor Wendell Anderson arranged for Lieutenant Governor Rudy Perpich to become governor and appoint him (Anderson) to

FIGURE 1
MINNESOTA BIENNIUM BUDGET CYCLE


DEC
Calendar Year (Approximate Dates)
JAN
FEB
MAY
JULY 1
NOV
DEC
JAN
Fiscal Year
Preparation Phase
The Governor
Directs Executive Branch preparation of a proposed budget
Department of Finance holds preliminary meeting with legislative leadership and staff to discuss budget format
Department of Finance prepares optional planning assumptions
Governor prepares preliminary budget policies and goals
Begin preparation of technical instructions for state agencies and department funding requests
State agencies and departments prepare funding requests
Department of Finance prepares preliminary analysis of revenue and expenditure to yield a projected biennium balance
Department of Finance conducts hearings for Governor on state agency and department funding requests
Department of Finance provides copies of all agency requests to Senate Finance and House Appropriations Committees
Revenue and appropriation proposals prepared for Governor's budget
Department of Finance prepares final analysis of revenue and expenditures to yield a projected biennium balance
Governor delivers the budget message


FEB
MAR
APR
MAY
Calendar Year (Approximate Dates)
Fiscal Year
Adoption Phase
Legislature
Senate
House of Representatives
Senate and House initiate budget approval through hearings
Program Committees
Tax Committees
Appropriation Committees
Drafting of tax and appropriation bills
Introduction/First reading
Department of Finance updates revenue forecasts
Referral to Committees
Recommend passage
Recommend passage as amended
Recommend not pass
No recommendation
Not hear the bill
Senate and House adopt committee reports--Second reading--Put into general orders--Discussion by Committee of Whole
Recommend passage
Recommend passage with amendments
Recommend postpone
Recommend not pass
No action
Back to committee
Senate and House put bills on calendar for Third reading, agreement on amendments and final vote
Identical bills passed by both Senate and House
Different bills passed by both Senate and House
Conference Committee passes compromise bills
Bills forwarded to Governor
Signs the bills
Line item veto on appropriation bills
Decline to sign within three days with Legislature in session
Pocket veto (after adjournment)
Veto
Vetoed bill overridden by 2/3 majority vote of Senate and House
Bills become laws
Department of Finance prepares a post-session revenue forecast and projected Biennium fund balance
Governor may call special session
Adopted budget for State Accounting General Fund


JULY 1
JAN
Calendar Year (Approximate Dates)
JULY 1
SEP
JAN
JUNE 30
Fiscal Year
Implementation Phase
Fiscal Year
Audit Phase
Executive Branch
A fiscal year allotment is established for each agency and department
State agencies and departments encumber program expenditures
Department of Finance performs controller function so expenditures do not exceed allotments and appropriations
Department of Finance manages cash flow
Short-term borrowing
Short-term investment opportunity
State Board of Investment
Department of Finance monitors revenue receipts, updates revenue and fund balance forecasts as needed
Reports to Governor monthly
Commissioner of Finance unallots expenditure with Governor approval to achieve balance budget
Legislature makes mid-biennium session budget adjustments
Department of Finance Prepares
Statements of revenue, expenditure and change in fund balance
Balance sheets
Legislative auditor examines statements, renders opinion
Commissioner of Finance prepares state annual financial report
Implementation and Audit Phases repeat for second year of biennium
Cycle Repeats for Each Biennium

fill the unexpired term of DFL Senator Walter Mondale who was elected Vice-President of the United States.

The 1978 election was a major upset for the DFL Party. In addition to loosing both U.S. Senate seats to Independent Republicans (IR), IR gubenatorial candidate, former U.S. Representative Albert Quie, defeated the DFL incumbant Rudy Perpich. Equally important, the IRs gained control of 50 percent of the seats in the House of Representatives. Key planks in the Quie platform were 1) tax reduction, particularly through indexing of the state income tax and 2) holding government spending to a level people could afford. The climate of the election outcome was indicated by the title of a post-election editorial in the St. Paul Pioneer Press, "A Civilized Proposition 13."

Minnesota entered the 1979-81 Biennium in a favorable budgetary condition; estimated general fund balance forward (surplus) was $297.3 million. In the 1979 regular session the Governor and IR legislators were successful in passing income tax indexing. The DFL opposition strategy was to help the Governor spend down the surplus by 1) increasing the effects of indexing in lower income brackets, 2) trading off for as much DFL-favored property tax relief as possible and 3) hoping that the IR policies would put the state in fiscal straits that would be politically embarrassing. The 1979-81 Biennium budget anticipated $8,260.1 million in available resources, $716.6 million in property tax relief and indexing of state income taxes, expenditures of $7,517.8 million and an ending balance of $31.7 million on June 30, 1981.

During the 1980 mid-biennium session, increased homestead credit and other tax relief measures were passed. The additional tax relief along with adjustments to revenue and expenditure resulted in an extremely low $3.7 million fund balance projected for the end of the biennium on June 30, 1981.

General fund revenue receipts for May 1980 were $34.1 million below estimates. This significant variance was a first indication of a potentially unfavorable budget condition. Receipts for June 1980 were $69.5 million below estimates, making total revenue $90.5 million below estimates for the end of FY 1980, the first year of the 1979-81 Biennium. State financial condition now became a matter of concern.

On July 10, 1980 Governor Quie convened a public meeting of state agency heads, legislative leaders, and media representatives to report the June 30, 1980 state financial condition, order a revised revenue forecast, and put local government and school district officials on notice that a significant shortfall in revenues could result in state aid reductions. During August 1980 the Department of Finance issued a revised general fund forecast showing a net shortfall of $198.8 million for the 1979-81 Biennium. When combined with the projected balance of $3.7 million, the shortfall required a cut of $195.1 million to yield a "0" balance at the end of the biennium. IR legislators did not want the Governor to call a special session in which they would have to vote for cutting programs or increasing taxes during a legislative election year. Presenting a

strong executive image, Governor Quie invoked statutory authority (M.S. 16A.15 Subd.1) allowing the Commissioner of Finance to reduce allotments to avoid a deficit as opposed to calling a special legislative session. The announced reductions were as follows (in millions):

State and Semi-State Agencies	$ 49.7
Higher Education, Dept. of Education, Higher Education Coordinating Board, and Minnesota Education Computing Consortium	35.0
Aids to School Districts	89.5
Aids to Local Government	20.9
TOTAL	$ 195.1

Privately, DFL legislators were elated with the Governor's decision making it unnecessary for them to vote tax increases or spending cuts in a special session before the election. Publicly, they made the Governor's recision decision the major campaign issue. They charged the IRs with mismanagement of state finances and failing to involve the people's legislative representatives in reducing appropriations for education and local government.

The 1980 election was a mixed bag for the DFL. Republican Ronald Reagan was elected President and IR Senator David Durenberger was reelected to a full term in a highly contested and costly campaign. However, the recision issue seemed to work for the DFL in state legislative races. The DFL retained its majority in the Senate (44 DFL and 23 IR) and regained a majority in the House of Representatives (70 DFL and 64 IR). The political actors were now cast for the 1981-83 Biennium; opposing political parties controlled the executive and legislative branches of state government.

The state budgetary condition worsened. The effects of too much property tax relief and over-indexing of the state income tax were joined by a much greater and more ominous force; the national economic recession. Revenue receipts had fallen short of estimates by $20.8 million in August and $46.4 million in November, creating both revenue and cash flow problems. In November the state borrowed $100 million; the first short-term borrowing in 20 years. There were reports of a "billion-dollar gap" between revenue and expenditure for the 1981-83 Biennium (actually the gap was between revenue estimates and expenditure requests).

The School Finance System

Elementary/secondary education emcompasses far more than the school finance system. An extended overview of the condition of Minnesota elementary/secondary education at the beginning of the 1981-83 Biennium was beyond the scope of the study. Factors contributing to a general climate of uncertainty, unrest and some depression included declining enrollment, rising costs, unfavorable publicity about public schools, support for

tuition tax credits and vouchers, political activities of teacher organizations, collective bargaining, fragmentation of the education lobby, etc. The net effect of these forces at the state level was probably best described in an off-hand comment by an executive branch staff member to the effect that, "Education is no longer a sacred cow."

The elementary/secondary school finance system was of concern in the present study for two reasons. First, it was incorporated into the budgetary revenue plan model used to monitor the impact of decremental budgeting decisions on elementary/secondary education. Secondly, it was the much modified school finance reform of 1970-71 called "the Minnesota Miracle" that had achieved property tax relief and equalization in low spending districts by shifting a major share of support for elementary/secondary education to state government. Major components of the school finance system included the following:

1) A formula for determining foundation revenue by multiplying weighted pupil units (K=.5, 1-6=1.0 and 7-12=1.4) times a formula allowance ($1,354 initially proposed for FY 1982 and $1,499 initially proposed for FY 1983). A locally collected property tax share was determined by a state-mandated mill rate (21 mills initially proposed for both FY 1982 and FY 1983) times an adjusted (equalized) assessed district valuation. NOTE: "Fine tuning" adjustments for high spending districts (grandfather levy), AFDC pupil units, growth units, support (enrollment decline) units, sparsity, local discretion, minimum aid, etc. had negated potential equalizing effects of the formula.

2) Several percentage reimbursement formulas were used to allocate state categorical aids to special education and secondary vocational education.

3) A regression-equation based, predicted-cost, inflation-adjusted equalized aid-levy formula was used to determine state aids and locally collected property tax shares of pupil transportation costs.

4) A series of tax and valuation based property tax relief aid formulas affecting homestead, agricultural, wetlands and other property.

5) Miscellaneous aids including capital expenditure equalization aids, flat grant aids for gifted, school lunch, chemical abuse programs, etc.

Interview data indicated that many elected and appointed officials experienced difficulty understanding the complex school finance system and resulting impacts of proposed decremental budgeting decisions. For example, an across-the-board percentage reduction of state aids distributed under the foundation aid formula would affect districts differentially depending on the proportion of revenue that came from state sources. State reductions had to be made to total revenue to prevent low property wealth districts from taking larger reductions than high property wealth districts.

Budgetary Model for Data Analysis

A comprehensive state budget for elementary/secondary education did not exist for historical reasons associated with the state-local partnership for educational governance. This study used the "revenue plan" model presented in Figure 2 to aggregate proposed or actual allocations for elementary/secondary education from such diverse sources as the Governor's Budget, tax and appropriation bills, district levy limitation and certification reports, and other state agency reports. The model provided a framework for monitoring the impact of state revenue shortfalls on total support for elementary/secondary education, public and private, during the 1981-83 Biennium from all revenue sources.

Elementary/secondary education was defined to include instructional and support services typically provided to achieve the goals of grades K-12. Preschool health screening, early childhood, and parent education were considered preparatory and were included in the definition. Adult education leading to general education development (GED) diplomas and state operated elementary/secondary level schools for the blind and the deaf were also included. Post-secondary vocational training, community education, and public libraries are not integral components of elementary/secondary education and aids and levies associated with those services were excluded. State Department of Education sections concerned primarily with support of grades K-12 programs and the regional Educational Cooperative Service Units (ECSUs) were defined as part of the elementary/secondary system.

Public support for services to non-public students was provided in three ways and included in the allocation framework. 1) Allocations were made for textbooks and tests, guidance and counseling, health services, special education, and transportation through aids and levies received by public school districts. Costs of some services provided by public schools, such as special education, were not identifiable in available data. 2) State allocations for school lunch services are paid directly to non-public schools. 3) Minnesota Statute 290.09 Subdivision 22 authorizes state income tax deductions of tuition and other elementary/secondary education expenses. Since public education must be "free" to students, estimates of foregone state income tax revenue as a result of M.S. 290.09 Subdivision 22 were considered a resource for non-public elementary/secondary schools. These allocations make some non-public school operations part of the publicly supported elementary/secondary system.

Allocation data were presented on a statewide "entitlement" basis. A statewide entitlement was the aggregate of levies, aids authorized by statute, Permanent School Endowment Fund earnings and other sources for both years of the biennium. For services to public school students, the statewide entitlement was the amount all school districts would collectively anticipate as revenue for each fiscal year under Uniform Accounting and Reporting Standards (UARS). By way of illustration, the Governor's Budget proposed an appropriation for secondary vocational education in FY 1982 of $22,108,300 for the current year and $2,059,000 for the prior year. The proposed appropriation for FY 1983 was $21,538,000 for the current year

FIGURE 2

Budgetary Revenue Plan Model for Assessing
Impact of Fiscal Crisis on Elementary/Secondary Education

	Fiscal Year 1982 Total	Fiscal Year 1983 Total	Biennium Total	Source Total	Organization Total	Public/ Private Total	Total Allocation
Total Proposed Allocation							XXXXXXX
Public K-12 Education						XXXXXX	
School Districts					XXXXX		
Property Taxes				XXXX			
Authorized Levy #1	XX	XX	XXX				
Authorized Levy #2	XX	XX	XXX				
Etc.	XX	XX	XXX				
Tax Replacement Aid	(XX)	(XX)	(XXX)				
State Aids				XXXX			
Aid Source #1	XX	XX	XXX				
Aid Source #2	XX	XX	XXX				
Etc.	XX	XX	XXX				
State Direct Exp.				XXXX			
Emp. Ret. Cont.	XX	XX	XXX				
Regional Educ. Agencies					XXXXX		
State Aids				XXXX			
ECSU Appropriation	XX	XX	XXX				
State Education Agency					XXXXX		
State Expenditure				XXXX			
SDE Appropriation	XX	XX	XXX				
Non-public Education						XXXXXX	
Non-public K-12 Schools					XXXXX		
Property Taxes - local dist.				XXXX			
Trans. Levy	XX	XX	XXX				
State Aids (indirect)				XXXX			
Shared Time	XX	XX	XXX				
Non-public	XX	XX	XXX				
Transportation	XX	XX	XXX				
State Aids (direct)				XXXX			
School Lunch Aid	XX	XX	XXX				
State Foregone Revenue				XXXX			
State Income Tax	XX	XX	XXX				

and $2,456,500 for the prior year. Statewide entitlement for FY 1982 would be $22,108,000 plus $2,456,500 or $24,564,500. Since an 85 - 15 percent payment plan was recommended for payment of this aid, the proposed current year appropriation for FY 1983 of $21,538,000 divided by .85 yielded a statewide entitlement of $25,456,700. The 15 percent balance would be recognized by school districts as revenue for FY 1983, carried forward as a receivable, and be paid from a FY 1984 state appropriation designated for the "prior year."[1] This illustration also indicates how increasing the percent of "catch up" payment shifts the obligation from the second year of one biennium to the next biennium. Under the previous 90 - 10 payment plan the State would have had to disburse $22,910,030 from FY 1983 appropriations and $2,545,670 from FY 1984 prior year adjustment appropriations. Under the 85 - 15 plan $21,638,000 would be paid from FY 1983 appropriations and $3,818,700 from FY 1984 prior year adjustment appropriations for this particular aid alone; changing to the 85 - 15 plan would shift a $1,273,030 obligation into the 1983-85 Biennium. In some instances, two or more similar aids were combined into a single line item of tabled data.

Data presented are approximate because budget data are generated through estimation and planning procedures that cannot have accounting accuracy. Minor distortions were caused by such factors as not being able to separate special education services for non-public students, inability to partial out state payment of employer's share of retirement and social security for post-secondary vocational teachers, rounding amounts to the nearest thousand, etc. However, these distortions are insignificant relative to the total resources allocated for elementary/secondary education. In a $4.26 billion biennial allocation a $1 million variance represents an error of about .02 percent.

Results of the Study

To monitor the impact of state revenue shortfalls on elementary/secondary allocations during the biennium, the "revenue plan" model was applied at five points in time; 1) January 27, 1981 based on the Governor's Biennial Budget and other documents, 2) June 6, 1981 based on laws passed in the 1981 Regular Session and the 1981 First Special Session, 3) January 15, 1982 based on the budget balancing bill passed during the 1981 Third Special Session, 4) March 31, 1982 based on laws passed during the 1982 Regular Session, and 5) December 13, 1982 based on a budget balancing bill passed during the 1982 Third Special Session. The January 27, 1981 data served as a baseline against which subsequent changes could be compared.

---

[1] Non-public schools are not required to comply with UFARS. Indirect aids and levies supporting services provided by public schools are recognized in the district accounts. Direct state aids to non-public schools for student lunches are accounted for in their own records and by the State Department of Education when the aids are disbursed.

January 27, 1981--The Governor's Budget Baseline

Before the 1981 regular session of the 72nd Minnesota Legislature convened on January 6, 1981, elementary/secondary education was feeling the effects of the 1980 recision. Beginning with school foundation aid payments for November 1980, all districts received a 5.3 percent recision for the year to be spread equally over seven monthly payments ending in May 1981 implementing the $89.5 million reduction in school aids. There was discussion of the reported "billion-dollar-gap" and speculation that the Governor would be unable to submit a balanced budget for the 1981-83 Biennium without increasing taxes. One of the first bills (Senate File 2) introduced after the session convened was a politically motivated move by the DFL to restore the $89.5 million reduction in school aids. Neither DFLers or IRs had any idea how serious the fiscal problem would become and partisan politics between the IR Governor and the DFL controlled Legislature was the name of the game.

In his January 27, 1981 biennial budget message, the Governor proposed an $8.7 billion 1981-83 Biennium budget, an 18.6 percent increase over the previous biennium billed as not providing more services than the citizens could afford. The $1.4 billion increase was to be supported by $1.3 billion in new revenue expected from moderate economic growth with 10 percent to 11 percent inflation. Attempting to avoid a tax increase, additional revenue was to be obtained by one-time inclusion of two federal income tax refunds in taxable Minnesota income ($51.4 million), increased state income tax compliance ($38 million), making state telephone-telegraph tax current ($37 million), increasing delinquent tax interest rate from 8 percent to 12 percent ($5 million). Accelerated tax collection would increase cash availability. Another $248 million would be made available by shifting renter tax credits from April to October, local government aids from March to July, payment of taconite homestead credit from June to July, changing DNR payments in lieu of the taxes on public property from January to July, and increasing the October school aid catch up payment from 10 percent to 15 percent.

Of the proposed $1.4 billion in new expenditure, $900 million was recommended for school aids, aids to local government and property tax relief. State aids to local school districts were to be increased by $458 million or 22.2 percent over the 1979-81 biennium for a total of $2.5 billion; about one-third of the entire budget. A total of $6.3 billion or 74 percent of the entire budget was for state transfer payments. The remaining $500 million increase was slated for other state agencies and services. Overall, the Governor's budget reflected a 5 percent reduction in state agency budgets and a net 4 percent reduction in staff for the 1981-83 Biennium. Greatest spending restraints were applied to welfare costs; citing lack of expenditure control and a projected $53 million welfare cost overrun in the 1979-81 biennium. Welfare cost control measures included limited increases for AFDC, general assistance, supplemental aid, medical assistance, and elimination of the catastrophic health program.

The Governor's Budget presented January 27, 1981 recommended the following major provisions for funding elementary/secondary education during the 1981-83 Biennium:

- A 7 percent increase in foundation aid for FY 1982 using a formula allowance of $1,354 per weighted pupil unit less an equalized property tax of 21 mills.

- A 10.7 percent increase in foundation aid for FY 1983 using a formula allowance of $1,499 per weighted pupil unit less an equalized property tax of 21 mills.

- Special education appropriations that assumed 9.1 percent and 8.6 percent salary increases during FY 1982 and FY 1983 respectively, but no increase in numbers of essential personnel.

- Special education aids would be distributed on the bases of a) 69 percent of salaries not to exceed $12,000 plus 5 percent of total special education salaries or 70 percent of salaries for essential personnel, b) 50 percent of supplies and equipment not to exceed $50 per pupil, c) 60 percent of the difference between the foundation formula allowance and actual expenditure for contracted services, and d) full costs of residential care for handicapped students whose parental rights had been terminated.

- Secondary vocational aid would continue to be 50 percent reimbursement for salary, travel, and equipment with appropriations representing an 8.4 percent increase for FY 1982 and a 3.6 percent increase for FY 1983.

- Recommended transportation aids would continue to be distributed using a multiple-regression formula. Increases of 12.9 percent for FY 1982 and 9.9 percent for FY 1983 were based on higher estimated costs for fuel and other operating expenses.

Data in Table 1 from the Governor's Budget and other sources identified in footnotes present comprehensive 1981-83 Biennial allocations for elementary/secondary education had the proposed budget been adopted and existing school district levy authorizations remained unchanged. Highlights of Table 1 which serve as benchmarks in assessing the impact of revenue shortfalls on allocations for elementary/secondary education include the following:

- Total public resources allocated to elementary/secondary education would have been $4,457.5 million; allocations would have been $4,401.4 million for services to students in public schools and $56.1 million for services to non-public school students. Of the $4,401.4 million proposed for public elementary/secondary education, $4,351.7 million would have been expended by local school districts, $2.3 million by the regional ECSUs and $47.4 million by the State Department of Education.

- Net property taxes paid after tax replacement aids and levy limitation adjustments would have been $1,201.3 million including a $5.2 million portion of the transportation levies to support transportation for non-public students.

- Total state aids for elementary/secondary education would have been $2,851.9 million including $2,813.1 million for district services to

Table 1

Proposed Allocations (Entitlements) of Local and State Resources for Minnesota Elementary and Secondary Schools During the 1981-83 Biennium Based on the Governor's Budget Message and Other Sources (January 27, 1981) (In Thousands)

	FY 1982	FY 1983	Biennium Total	Source Total	Organization Total	Public/ Private Total	Total Allocations
Total proposed allocation							4,457,496
Public education						4,401,414	
School districts					4,351,707		
Property taxes				1,196,119			
1001[a] Maintenance levy[b]	609,261	742,179	1,351,440				
3001 Transportation levy[c]	28,814	31,075	59,889				
5001 Capital expenditure levy[d]	73,573	88,638	162,211				
7001 Debt service levy[d]	116,589	107,877	224,466				
Taconite adjustment[e]	8,887	8,367	17,254				
Tax replacement aids[f]	(273,542)	(328,345)	(601,887)				
Taconite adjustment[e]	(8,887)	(8,367)	(17,254)				
State aids[g]				2,813,068			
211 Foundation	768,054	819,744	1,587,798				
218 Summer school	14,454	15,676	30,130				
220 School agriculture credit	71,284	84,115	155,399				
226 Capital expenditure equalization	824	630	1,454				
227 Abatement	2,751	2,988	5,739				
241 Emergency	50	0	50				
251 Attached machinery[h]	2,029	2,029	4,058				
253 Homestead credit[h]	193,281	234,248	427,529				
255 Homestead credit taconite[i]	3,678	3,600	7,278				
256 Taconite aid[j]	13,867	16,887	30,754				
258 wetlands credit[h]	1,062	1,399	2,461				
258 wetlands reimbursement[h]	376	511	887				
258 Native Prairie credit[h]	40	42	82				
258 Native Prairie reimbursement[h]	14	11	25				
258 Reduced assess credit[h]	4,197	4,941	9,138				
300-320 Teacher mobility	3,050	3,511	6,561				
300-322 Adult education	1,233	1,423	2,656				
300-330-1-2 Council on Quality Education	1,857	1,857	3,741				
300-354 Preschool Screening	1,392	1,465	2,857				
300-357 Bicultural and Indian Education	525	525	1,050				
300-359 Gifted and Talented	588	640	1,228				
300-360 Limited English Proficiency	2,818	4,053	6,871				
300-368 Chemical use	850	850	1,700				
304 Transportation[k]	116,206	127,327	243,533				
319 School lunch[l]	4,254	4,588	8,842				
341 Secondary vocational	24,565	25,456	50,021				
345 Secondary vocational handicapped	2,498	2,682	5,180				
360 Special Education	99,557	108,149	207,706				
637 Maximum effort loans	4,180	4,160	8,340				
State direct expenditure				342,520			
Employer retirement contributions	164,897	177,623	342,520				
Regional education agencies					2,305		
State aids				2,305			
ECSU appropriation	1,105	1,200	2,305				
State education agency					47,402		
State expenditures				47,402			
SDE appropriation	23,415	23,987	47,402				
Non-public education						56,082	
Non-public K-12 schools					56,082		
Property taxes-local districts				5,208			
3001 Transportation levy[m]	2,506	2,702	5,208				
State aids (indirect)				35,797			
213 Shared time	2,631	2,913	5,544				
300-350-1-3 Non-public	4,548	4,528	9,076				
304 Transportation[n]	10,105	11,072	21,177				
State aids (direct)				727			
School lunch aid[o]	350	377	727				
State foregone revenue				14,350			
State income tax[p]	6,150	8,200	14,350				

Footnotes for Table 1

[a]UFARS codes

[b]Source: FY 1982 spread levy; FY 1983 spread levy minus recertification ($24,036,379) and adjusted to 21 mills (-$52,709,937) for basic levy

[c]FY 1982 amount is 92 percent of spread levy based on 1980-81 ratio of non-public transportation cost to total transportation cost; FY 1983 amount is 92 percent of spread levy minus recertification ($26,375,118)

[d]Spread levies

[e]Source: SDE Levy Limitation and Certification Data Base. Taconite levy adjustment made before calculation of spread levy; contra adjustment entry to disclose tax reduction effect

[f]Includes agriculture, homestead, taconite homestead, wetlands, native prairie, and reduced assessment credits deducted from property tax levies

[g]Source: Governor's Budget unless otherwise noted

[h]Source: SDE Levy Limitation and Certification data base

[i]Source: FY 1982 SDE ESV-FIN data base, FY 1983 is estimate

[j]Levy adjustment plus foundation aid deduction

[k]Transportation aid is 92 percent of proposed allocation based of the 1980-81 ratio of non-public transportation costs to total transportation costs

[l]School lunch aid is 92.4 percent of proposed allocation based on 1980-81 ratio of non-public payments to total payments for the period 7/80 through 6/81. Restoration affecting public schools only not included

[m]See note "c"

[n]See note "k"

[o]See note "1"

[p]Estimates based on Department of Revenue samples for 1978 ($2.1 million) and 1980 ($4.1 million)

public school students, $2.3 million for regional ECSU services, $35.8 million for services to non-public students provided through public schools, and $727,000 paid directly to non-public schools for food services.

- State direct expenses for elementary/secondary education would have been $389.9 million; the school districts' employer's share of Social Security and Teacher Retirement Association contributions of $342.5 million and operation of the State Department of Education for $47.4 million.

- Contribution of M.S. 290.09 Subdivision 22 education expense tax deduction law to non-public school tuition costs was estimated to be $14.3 million.

Elected IRs and staff were elated that the proposed budget supported state programs and projected a fund balance of $7.3 million on June 30, 1983, the end of the biennium without increasing taxes. The Governor indicated that legislative restoration of the 1980 school aid cuts (Senate File 2) would shift the payment to the 1981-83 Biennium reducing appropriations for the biennium by that amount. The Governor's proposed change in foundation, transportation, special education, secondary vocational, adult education, and school agricultural credit aid payments from 90 percent in the current year and 10 percent in the following year (90 - 10 plan) to an 85 - 15 plan would have shifted $58.8 million to be covered by appropriations made for the 1983-85 Biennium.

The session was turbulent. January revenue receipts were $20.6 million below estimates. The school aid restoration bill passed and was signed by the Governor. The Governor issued an executive order freezing state travel, hiring, purchasing, etc., hoping to save $15 million. A bill (Senate File 66) was passed and signed by the Governor accelerating collection of $61.4 million of withholding into FY 1981. State revenue receipts for March 1981 were $31.3 million below estimates making a year-to-date shortfall of $70.1 million. The Governor reversed an earlier recommendation of 7 percent salary increases for department heads, constitutional officers and judges.

A revised revenue forecast on April 9, 1981 indicated the general fund would end the 1979-81 Biennium with a $112.3 million deficit. The Governor recommended that the deficit be carried forward into the 1981-83 Biennium and informed the Legislature that the $112.3 million deficit combined with 1981-83 revenue forecasts indicated a $503 million budget imbalance.

On April 15, 1981 the Governor proposed a $599.7 million budget adjustment; a $460.1 million state tax increase and a $139.6 million expenditure reduction. The tax increase included a 5 percent income tax surcharge for individuals ($195 million) and corporations ($36.7 million), an adjustment of the indexing rate ($57.5 million), making state medical expense deductions similar to federal ($142.4 million), and dropping gas tax deductions ($31.1 million). The modified revenue plan included an 8 percent limit on local property tax increases to minimize property tax absorption of state budget cuts. The $139.6 million expenditure reduction consisted of a 3 percent across the board cut for most state agencies and programs ($70.2 million), merger of Energy, State Planning, Economic

Development and Crime Prevention Planning into a single department ($8 million), abolishment of Higher Education Coordinating Board ($2 million), increasing property tax support for school districts from 21 to 23 EARC mills ($39.9 million), reducing the shade tree program ($9.9 million), reducing building maintenance ($8.1 million), reducing community health grants ($2 million) and eliminating a proposed unified business license center ($459,000). The net budgetary effect of proposed tax increases and expenditure reductions would have been a $96.7 million balance at the end of the 1981-83 biennium.

Turbulence and partisan acrimony continued to characterize the session. A bill carrying the Governor's proposed $460.1 million tax increase was defeated in the House Tax Committee 18-9; the DFL majority prepared to make alternative proposals. The following major bills were passed by Legislature:

1) Higher education appropriations, House File 1421 (1981 Session Laws Chapter 359).

2) Transportation and semi-state agencies, House File 1434 (1981 Session Laws Chapter 357).

3) Transportation revenue bill, House File 553 (1981 Session Laws Chapter 363).

4) State departments appropriations, House File 1443 (1981 Session Laws Chapter 356).

5) School aids bill, House File 70 (1981 Session Laws Chapter 358).

6) First supplemental budget "bonus" bill, House File 1132. and

7) Tax bill, House File 1445.

The budget "bonus" bill and the tax bill were vetoed by the Governor.

Of particular interest to elementary/secondary education were the omnibus school aids bill (1981 Session Laws Chapter 358) signed by the Governor on June 1, 1981 and the budget bonus bill (House File 1132) which the Governor vetoed. The school aids bill (Chapter 358) appropriated $2.25 billion for elementary/secondary education. Major components in the appropriations included $1,338 million for foundation aid, $23.4 million for summer school, $247.2 million for transportation, $194.3 million for special education and $42.1 million for secondary vocational education. The bill also provided for increasing the portion of aids shifted into the following fiscal year from 10 percent to 15 percent ($49 million) starting with the 1982-83 school year. In terms of the school finance system, the following provisions were established in statute:

- A foundation formula allowance of $1,318 per weighted pupil unit less 21 EARC mills for FY 1982 and an allowance of $1,400 less 23 EARC mills for FY 1983.

- The rate for special education salary reimbursement aid was reduced to 65 percent.
- Transportation entitlement allocations were reduced 3.4 percent below January recommendations by not aiding transportation of secondary students living within two miles of school.
- Secondary vocational aid for salaries, travel, and equipment was reduced from 50 to 45 percent for FY 1982 and equipment aid was eliminated starting with FY 1983, but offset by an authorized additional $5 per pupil unit capital expenditure levy.
- Secondary vocational handicapped salary reimbursement aid was reduced from 70 to 65 percent.
- The discretionary levy was increased from 1 to 2.25 mills for FY 1982.

While the provisions of Chapter 358 were acceptable in terms of the Governor's proposed budget, legislative leaders supported higher appropriations for elementary/secondary education. On May 18, 1981 the Legislature passed a first supplemental budget "bonus" bill, House File 1132. The bill would have generated additional revenue from taxes on cigarettes, beer and wine, and soft drinks. In addition to higher welfare appropriations, the bill would have allocated an additional $58.9 million for elementary/secondary school aids. House File 1132 was vetoed by the Governor on the same day it was passed by the Legislature.

Of broader significance was the Governor's veto of the tax bill, House File 1445. The bill would have provided an additional $400 million in tax revenue by eliminating state deductions of medical expense ($142 million), adjustment to indexing ($130 million), a 1 percent surcharge on business income taxes ($37 million), and dropping gas tax deductions ($31 million). The bill also provided for property tax relief through tax calculation on lower assessed values and having the State pay 75 percent of all property tax increases over 20 percent to a maximum of $200. The bill was vetoed because a) it raised $60 million less than proposed and was expected to create a later budget deficit and b) it contained too large an adjustment to income tax indexing. The Governor recommended a 1 percent sales tax increase. The veto made a special session necessary in order to adopt a state biennial budget.

June 6, 1981--A First Set of Allocative Decisions

On June 6, 1981 the Legislature convened for the First 1981 Special Session and passed the following bills affecting the budget which were signed by the Governor on the same day:

1) A budget balancing tax bill, First 1981 Special Session, House File Number 1 (Laws First 1981 Special Session Chapter 1). The bill was expected to generate $587 million mainly by increasing the sales tax from 4 percent to 5 percent through June 30, 1983

($416.1 million), adjustment to indexing ($91.8 million), state medical deductions in conformity with federal ($74.6 million). Among many other provisions the bill provided relief from expected increaser in property taxes.

2) A second supplemental budget bill, First 1981 Special Session House File Number 2 (Laws First 1981 Special Session Chapter 2). The $73.8 million appropriation included $37.7 million for elementary/secondary education, $6.7 million for higher education scholarships and private college contracts, and $29.4 million for a reserved bed policy, drugs, and a 10 percent increase in rates for welfare patients in nursing homes.

3) State payment shift bill, First 1981 Special Session House File Number 3 (Laws First 1981 Special Session Chapter 3). The bill moved an estimated $300 million into the current biennium by accelerating telephone tax collections, providing for deduction of federal income tax on an accrual basis, and other provisions.

4) A bill amending M.S. 1980 Section 16A.15 Subdivision 1, First Special Session 1981 Senate File 2 (Laws First 1981 Special Session Chapter 5) allowing the state to have a deficit during the first year of a biennium.

The politics of adjusting income tax indexing and increasing the sales tax were important in resolving the budget crisis, but details were beyond the scope of the study.

The second budget "bonus" bill, Laws 1981 First Special Session Chapter 2, impacted elementary/secondary allocations as follows:

- The foundation formula allowance for FY 1982 was increased from $1,318 to $1,333 per weighted pupil unit and from $1,400 to $1,416 for FY 1983.
- The rate for special education personnel salary reimbursement aid was raised from 65 percent to 68.8 percent.
- Inflation factors for determining the predicted transportation costs were reduced 2 percent and 3 percent for the 1979-80 and 1980-81 base years, respectively.

In addition to changing the payment schedule for school aids already on the 90 - 10 to the 85 - 15 plan as proposed by the Governor, the Legislature placed an additional nine elementary/secondary aids on the 85 - 15 plan. The change from the 90 - 10 to the 85 - 15 plan for seven aids as proposed by the Governor would have raised the FY 1984 "prior year" appropriation portion from $103.8 million to $155.7 million; an increase of $51.9 million. Placing nine other aids on the 85 - 15 plan increased the FY 1984 "prior year" appropriation by an additional $2.2 million. The net effect of changing aid payment plans as of June 6, 1981 was a shift of $54.1 million of 1981-83 Biennium entitlements to be paid by 1983-85 Biennium appropriations.

Resource allocations for elementary/secondary education during the 1981-83 Biennium by regular session Chapter 358 and First Special Session Chapter 2 are reported in Table 2. Column 4 of Table 3 facilitates comparisons of proposed and actual allocations at the January 27 and June 6, 1981 points in time. The following differences between proposed and actual allocations indicate early impacts of the revenue shortfalls on public support of elementary/secondary education:

- Total public resources for elementary/secondary education were set at $4,350.3 million; $107.2 million below the Governor's proposal. Allocations for services to public school students were set at $4,295.8 million; $105.6 million below the proposed level. Support for services to non-public school students was $54.4 million; $1.7 million below the initial amount presented in Table 1.

- Of the $105.6 million difference between proposed and actual allocations for services to public school students, $103 million of the reduction was for local school districts, $871,000 for regional ECSUs, and $1.7 million for the State Department of Education.

- Net property taxes paid for elementary/secondary education increased $53 million over an estimate for January 27, 1981 based on status quo assumptions. Total estimated property taxes as of June 6, 1981 were $1,254.3 million including a $5.2 million portion of the transportation levy for support of non-public student transportation. The increase was due primarily to changing the basic property tax support from 21 to 23 EARC mills and increasing the discretionary levy.

- Total state aids were set at $2,693.4 million; $158.5 million below the Governor's recommendation. The total allocation included $2,657.1 million for services to students in public schools, $1.4 million for regional ECSU services, $34.1 million for services to non-public students provided by public schools, and $727,000 paid directly to non-public schools for food services. Lower state aid allocations were traceable to a reduced foundation aid formula allowance, increased property tax share of foundation revenue (2 EARC mills), and reductions in transportation and other aids.

The state financial report for the fiscal year ending June 30, 1981 indicated a negative general fund ending balance of $20.5 million. The Legislative Auditor took exception, concluding that general fund liabilities were understated and the fund balance was overstated by $243.7 million. The $243.7 million in unstated liabilities consisted of $89.1 million and $154.6 million in school aids unallotted/restored and delayed, respectively. Clearly, these aid payments were obligations of fiscal year 1981 which could not be met due to revenue shortfall. While legal interpretation may differ, the stated negative balance plus the understated liability would indicate a total negative ending fund balance of $264.2 million.

On July 1 a two day 1981 Second Special Session was convened. A bill, House File 1, was passed and signed by the Governor (1981 Second Special Session Chapter 1) which increased the State's short term borrowing authority

Table 2

Allocations (Entitlements) of Local and State Resources for Minnesota Elementary and Secondary Schools During the 1981-83 Biennium
Based on 1981 Session Laws Chapter 358 and 1981 First Special Session Laws Chapters 1 and 2 (June 6, 1981) (In Thousands)

	FY 1982	FY 1983	Biennium Total	Source Total	Organization Total	Public/ Private Total	Total Allocation
Total proposed allocation							4,350,255
Public education						4,295,843	
School districts					4,248,705		
Property taxes				1,249,107			
1001[a] Maintenance levy	609,261	794,889	1,404,150				
3001 Transportation levy[b]	28,814	31,075	59,889				
5001 Capital expenditure levy	73,573	88,638	162,211				
7001 Debt service levy	116,589	107,877	224,466				
Taconite adjustment[c]	8,887	8,367	17,254				
Tax replacement aids[d]	(272,783)	(328,826)	(601,609)				
Taconite adjustment[c]	(8,887)	(8,367)	(17,254)				
State aids				2,657,078			
211 Foundation	764,158	685,855	1,450,013				
218 Summer school	0	12,066	12,066				
220 School agriculture credit	70,525	84,596	155,121				
226 Capital expenditure equalization	735	511	1,246				
227 Abatement	2,751	2,988	5,739				
241 Emergency	50	0	50				
251 Attached machinery	2,029	2,029	4,058				
253 Homestead credit	193,281	234,248	427,529				
255 Homestead credit taconite	3,678	3,600	7,278				
256 Taconite aid	13,867	16,887	30,754				
258 Wetlands credit	1,062	1,399	2,461				
258 Wetlands reimbursement	376	511	887				
258 Native Prairie credit	40	42	82				
258 Native Prairie reimbursement	14	11	25				
258 Reduced Assess credit	4,197	4,941	9,138				
300-320 Teacher mobility	3,287	3,455	6,742				
300-322 Adult education	1,145	1,327	2,472				
300-330-1-2 Council on Quality Education	2,650	2,250	4,900				
300-354 Preschool screening	1,192	1,265	2,457				
300-357 Bicultural and Indian Education	677	675	1,352				
300-359 Gifted and Talented	588	640	1,228				
300-360 Limited English Proficiency	3,025	3,947	6,972				
300-368 Chemical use	988	973	1,961				
304 Transportation[e]	114,123	118,263	232,386				
319 School lunch[f]	4,254	4,588	8,842				
341 Secondary vocational	21,880	21,150	43,030				
345 Secondary vocational handicapped	2,307	2,505	4,812				
360 Special education	107,424	116,553	223,977				
637 Maximum effort loans	5,104	4,396	9,500				
State direct expenditure				342,520			
Employer retirement contributions	164,897	177,623	342,520				
Regional education agencies					1,434		
State aids				1,434			
ECSU appropriations	665	769	1,434				
State education agency					45,704		
State expenditures				45,704			
SDE appropriation	22,519	23,185	45,704				
Non-public education						54,412	
Non-public K-12 schools					54,412		
Property taxes-local districts				5,208			
3001 Transportation levy	2,506	2,702	5,208				
State aids (indirect)				34,127			
213 Shared time	2,561	2,720	5,281				
300-350-1-3- Non-public	4,110	4,528	8,638				
304 Transportation	9,924	10,284	20,208				
State aids (direct)				727			
School lunch aid	350	377	727				
Education expense tax deduction				14,350			
Foregone income taxes	6,150	8,200	14,350				

Footnotes: see Table 1

to $360 million or the maximum current cash flow requirement with the recommendation of the Legislative Advisory Commission. Twenty days later Standard and Poor of New York dropped Minnesota's credit rating from AAA to AA- plus. Checks totaling $243.7 million were mailed to school districts completing a shift of school aid entitlement from the 1979-81 to the 1981-83 Biennium. In August a $16 million Department of Finance calculation error (overestimate of sales tax collection) was reported, an additional $150 million in short-term certificates of indebtedness were sold, the Governor obtained the resignation of the Commissioner of Finance, and another $13.7 million error (insurance premium tax collections delayed until December 31, contributing to the cash flow problem) was discovered.

During September the Governor named a nine-member blue ribbon State Finance Task Force to review forecasting procedures and assumptions. (The Task Force later recommended no changes in forecasting procedures and found that April 1981 forecasts were not unduly optimistic.) In a September 8 press interview, the Governor indicated that the Department of Finance had been directed to prepare contingency plans in the event that the economy remained sluggish. If a new revenue forecast showed an expected June 30, 1982 balance of $160 million depleted, he would call a special legislative session to cut the budget. On September 22, the State sold $360 million in certificates of indebtedness at 10.477 percent interest to be repaid July 1, 1982.

State revenue receipts had continued to fall short of estimates; -$1.7 million in July, -$31.7 million in August, -$29 million in September. Comparable revenue data were not available for October, but the ending cash balance was a negative $374.8 million; taking the $360 million in short-term borrowing into account, the balance was a negative $14.8 million. Minnesota was overdrawn.

A November 5, 1981 reforecast of revenues and expenditures indicated significant changes in the projected general fund budget condition from the previous forecast in April 1981. The new forecast estimated an additional $618.5 million shortfall in revenue. When revenue shortfall was combined with welfare deficiencies of $89.9 million, proposed acceleration of depreciation compliance of $79.0 million, short term interest expense of $40.9 million and other items, the general fund faced a total deficit of $859.9 million minus a $92.3 million fund balance allowance leaving a net budget deficit of $767.6 million. Payments to local governments in the amount of $78 million for November and December were delayed.

On November 24, the Governor proposed a third revised budget for the 1981-83 biennium. The proposed budget solution was to make cuts totalling $767.8 million. An overall rate of 11.8 percent reduction for each year of the biennium was proposed affecting local government aids and property tax relief ($188.1 million), school aids ($271.8 million), state agency workforce ($12.0 million), post secondary systems ($85.6 million), constitutional officers and the Legislature ($9.7 million), 5.9 percent reduction for State hospitals, veterans' homes, and schools for the blind and deaf ($17.7 million). It was also proposed that the state share of medical assistance, AFDC, and Minnesota Supplemental assistance be returned to

80 percent from the current 90 percent of Medical Assistance and 85 percent of other program costs ($44.6 million) with the difference to be picked up by the counties. The Governor also recommended cost containment measures proposed by a Task Force on Health Care ($20 million). On the revenue side the Governor's proposal would have increased local property taxes by $146.3 million and reduced corporate income taxes $79 million through accelerated depreciation allowances. The net effect, however, was no additional state collected revenue. The Governor also proposed a State Aids Stabilization Authority which would acquire $200 million in capital from revenue notes backed by the full faith and credit of local jurisdictions. Local governments, school districts, and postsecondary systems would be allowed to borrow up to one-half of biennium budget reductions after drawing down reserves. Repayment would be made over five years from savings, taxes, or postsecondary tuition.

January 15, 1982--1981 Third Special Session Allocations

The Governor called the Legislature into the 1981 Third Special Session on December 1, to deal with a severe cash flow problem and the $767.6 million state budget deficit. The shortfall was actually $859.9 million minus an anticipated $92.3 million "cushion." On December 21 the DFL controlled Legislature passed a budget balancing bill (1981 Third Special Session House File 14). On the revenue side the bill would have made $659.5 million available for the biennium; increased income taxes $199 million, corporate income taxes $91 million, excise tax $34.6 million, property tax $40.9 million and tax shift $294 million. Spending cuts in the bill totalled $261.1 million compared with $630.5 million for the same items in the Governor's November 24 budget revision. Reductions included $81.1 million for state operations, $20 million in local government aids, $129.8 million in school aids, and $30.2 million for higher education. The bill was vetoed by the Governor because it increased taxes too much and cut spending too little.

School aid payments of $153.8 million and $66.8 million were withheld in December 1981 and January 1982, respectively. Of the $220.6 million delayed, $.7 million were paid on appeal. Despite the Governor's lobbying against it, the Legislature passed a second budget balancing bill (House File 2) on January 11, 1982. The bill increased taxes $317.1 million; an 18 month 7 percent income tax surcharge through June 30, 1983 ($199 million), unitary corporate income tax on national earnings proportionate to investment and earnings in Minnesota ($63 million), closed loopholes in commodity trading ($14 million), lowered dividend exclusion for couples from $400 to $200 and from $200 to $100 for single individuals and eliminated current $400 interest exclusion for couples and $200 interest exclusion for singles ($10.5 million), added state 5 percent sales tax on top of $.18 cigarette excise tax ($21.2 million), and increased vending machine sales tax from 3 percent to 5 percent ($9.4 million). The bill shifted $165 million in state obligations to the 1983-85 biennium through a faster collection of sales taxes from large retailers ($31.0 million) and moving one sixth of school district tax levies 1982 payable 1983 ($134 million) as replacement

revenue for a like amount of state aid in fiscal year 1983. The bill provided for $402 million in spending cuts; reduction in public school aid ($160.9 million) which districts could partially offset by an optional 2-mill property tax levy that could raise up to $44 million state-wide, reduction of state agency budgets ($47.4 million), reduced aid to counties, cities, and townships ($32 million), cuts in health, welfare, and corrections ($26 million), and aid reductions to semi-state agencies and Metropolitan Transit Commission ($10 million). Tax relief measures included in the bill changed Minnesota tax on capital gains from 0 percent to match the current federal 40 percent ($15 million loss), adoption of federal estate tax system of no tax on property transfer to a surviving spouse ($3.5 million loss) and research and development tax credits for corporations ($18.5 million loss).

Legislative leaders indicated that the bill was as far as they could go and a veto would require the Governor to balance the biennium budget entirely through the unallotment process. A January 14 fund balance analysis incorporating provisions of House File 2 indicated a projected balance of $126.9 million on June 30, 1983 if the bill became law. The Governor was reluctant to exercise his veto power because of the disruption that it would have caused in state services. The bill became Laws 1981 Third Special Session Chapter 2, on January 15, 1982 upon expiration of the three-day time limit in which the Governor can decide to sign or veto a bill while the Legislature remains in session. Significant provisions of Chapter 2 affecting elementary/secondary education are summarized as follows:

- Local districts were authorized to certify 2 additional mills on or before January 22, 1982 increasing property tax support for student transportation from 1 to 2 EARC mills and increasing the foundation formula basic maintenance levy from 23 to 24 EARC mills. Transportation and foundation aids were reduced by corresponding amounts.

- The intact levy concept under which school district property taxes levied in 1981 and payable in 1982 would be recognized as revenue in FY 1983 was changed. Approximately one-sixth of the levy 82 payable 83 was to be recognized as revenue in FY 1983 with a corresponding reduction in state aid payments. Aid reductions to school districts would be accomplished by reducing monthly payments starting with those for June 1983 and working back toward July 1982 until the amount of the deduction was realized. The order of aids to be reduced starting with foundation aid was specified by the statute.

- A 7½ percent reduction was applied to all categorical aids, and all summer school aids were eliminated except for special education-severely handicapped.

- While the foundation formula allowance was reduced from $1,416 and set at $1,346 by statute for FY 1983 the amount of appropriation was adequate to fund the formula with an allowance of $1,325. Rather than reduce the formula allowance below the FY 1982 level of $1,333, the Legislature directed the Commissioner of Education to make an additional across-the-board general reduction of $26.9 million applied to nearly all aids flowing through the Department at that time.

- Cutting back state aid payments which are made to school districts on a monthly basis while schools are in session and replacing them with property tax revenues with major payments in June and November threatened to create cash flow problems for some school districts. A general fund appropriation of $15 million was made to establish a cash flow loan fund to be managed by the State Department of Education. While the $15 million did not constitute an allocation of revenue for elementary/secondary education, its appropriation involves a use of resources to operate the system.

- The 85 - 15 aid payment plan remained in place as of January 15, 1982, but the treatment of allocation data had to be adjusted in estimating prior year adjustment payments. The general reductions which actually reduced school district revenue had to be added back. While general reductions were computed on 100 percent entitlements, revenue reductions were subtracted from the current year 85 percent portion and had no effect on the prior year adjustment payment. (The aid reduction associated with the tax shift did not result in lower revenue to the local district. Aid reductions were subtracted from the 85 percent current year portion, were replaced by shifted property tax revenue, but had no effect on the prior year adjustment payment.) The actual reduction in state aids beyond the general reductions and the tax shift lowered the amount shifted to the 1983-85 Biennium using the 85 - 15 plan from $54.1 million to an estimated $48.3 million for elementary and secondary aids.

The impact of continuing revenue shortfalls on allocations for elementary/secondary education is indicated by the data in Table 4. Summary information in Column 6 of Table 3 facilitates comparison of entitlements as of January 15, 1982 with June 6, 1981 levels and the January 27, 1981 baseline. The following reductions highlight the additional impact:

- Total public resources allocated to elementary/secondary education were reduced $89.4 million to a total of $4,245.8 million (excluding the $15 million temporary cash flow loan fund). Allocations for services to public school students were reduced $103.2 million to $4,192.6 million (excluding the $15 million cash flow loan fund) and services to non-public students were reduced $1.2 million to $53.2 million.

- Of the $103.2 million reduction for public education services, $99.4 million was absorbed by school districts, $63,000 by regional ECSUs, and $3.8 million by the State Department of Education.

- Net property tax support of elementary/secondary education increased by $188 million to $1,442.3 million including a $7.3 million portion of transportation levies to support non-public student transportation. Two factors accounting for the increase were the one-sixth levy 82 payable 83 tax shift estimated at $137.6 million and the recertification totalling $50.4 million.

- Total state aid allocations were reduced $288.7 million to $2,404.7 million including $2,371.8 million for services to students in public schools, $1.4 million for regional ECSU services, $30.8 million for services to non-public students provided by public schools, and $727,000

Table 4

Allocations (Entitlements) of Local and State Resources for Minnesota Elementary and Secondary Schools During the 1981-83 Biennium Based on Laws Third 1981 Special Session Chapter 2 (January 15, 1982) (In Thousands)

	FY 1982	FY 1983	Biennium Total	Source Total	Organization Total	Public/ Private Total	Total Allocation
Total proposed allocation							4,260,817
Public education						4,207,630	
School districts					4,149,354		
Property taxes				1,435,009			
1001[a] Maintenance levy	609,261	818,925	1,428,186				
3001 Transportation levy[b]	28,814	55,341	84,155				
5001 Capital expenditure levy	73,573	88,638	162,211				
7001 Debt service levy	116,589	107,877	224,466				
020 Tax shift (1/6 Pay 83)	0	137,600	137,600				
Taconite adjustment[c]	8,887	8,367	17,254				
Tax replacement aids[d]	(272,783)	(328,826)	(601,609)				
Taconite adjustment[c]	(8,887)	(8,367)	(17,254)				
State aids				2,371,825			
211 Foundation	764,158	596,524	1,360,682				
218 Summer school	0	0	0				
220 School agriculture credit	70,525	84,596	155,121				
226 Capital expenditure equalization	735	471	1,206				
227 Abatement	2,751	2,723	5,474				
241 Emergency	50	0	50				
251 Attached machinery	2,029	2,029	4,058				
253 Homestead credit	193,281	234,248	427,529				
255 Homestead credit taconite	3,678	3,600	7,278				
256 Taconite aid	13,867	16,887	30,754				
258 Wetlands credit	1,062	1,399	2,461				
25H Wetlands reimbursement	376	511	887				
258 Native Prairie credit	40	42	82				
258 Native Prairie reimbursement	14	11	25				
258 Reduced assess credit	4,197	4,941	9,138				
300-320 Teacher mobility	3,287	3,147	6,434				
300-322 Adult education	1,145	1,224	2,369				
300-330-1-2 Council on Quality Education	2,650	2,074	4,724				
300-354 Preschool screening	1,192	1,167	2,359				
300-357 Bicultural and Indian Education	677	621	1,298				
300-359 Gifted and Talented	588	590	1,178				
300-360 Limited English Proficiency	3,025	3,641	6,666				
300-368 Chemical use	988	898	1,886				
304 Transportation[e]	114,123	84,404	198,527				
319 School lunch[f]	4,254	4,588	8,842				
341 Secondary vocational	21,880	19,511	41,391				
345 Secondary vocational handicapped	2,307	2,312	4,619				
360 Special education	107,424	107,463	214,887				
637 Maximum effort loans	5,104	4,396	9,500				
Reduction/Tax Shift	0	(137,600)	(137,600)				
State direct expenditure				342,520			
Employer retirement contribution	164,897	177,623	342,520				
Regional education agencies					1,371		
State aids				1,371			
ECSU Appropriations	665	706	1,371				
State education agency					41,905		
State expenditure				41,905			
SDE appropriation	20,701	21,204	41,905				
Other					15,000		
Cash flow loan fund				15,000			
appropriation	0	15,000	15,000				
Non-public education						53,187	
Non-public K-12 schools					53,187		
Property taxes-local districts				7,318			
3001 Transportation levy[g]	2,506	4,812	7,318				
State aids (indirect)				30,792			
213 Shared time	2,561	2,680	5,241				
300-350-1-3 Non-public	4,110	4,177	8,287				
304 Transportation[h]	9,924	7,340	17,264				
State aids (direct)				727			
School lunch[i]	350	377	727				
Education expense tax deduction				14,350			
Foregone income taxes	6,150	8,200	14,350				

Footnotes: see Table 1

paid directly to non-public schools for food services. The large reduction in state aid allocations is associated with the property tax recertification, the one-sixth tax shift, the foundation aid formula reduction, the general reduction, and cuts in specific categorical aids.

March 31, 1982--1982 Regular Session Revisions

The 1981 Third Special Session overlapped with and, in effect, became the 1982 Regular Session. The politics of decremental budgeting brought out both the best and the worst in elected officials. At times partisan political ideology got in the way of dealing with a major governmental problem. DFL leaders used every opportunity to discredit the IR Governor's executive management of state affairs. Some IR legislators rejected the Governor's leadership of the party. On January 25, 1982 a significant event occurred; the Governor announced he would not seek re-election. The Governor indicated he decided to set partisan politics aside and devote his energies toward resolving the state fiscal problem in the best way possible before leaving office. This decision meant working closely with DFL legislative leaders and further alienating some IR legislators.

But the problem involved more than differences in political point of view. March 9, 1982 revised forecasts indicated that general fund receipts were expected to be $212.1 million less than forecast in November 1981 and that expenditures would be $17.4 million higher. The net shortfall of $229.5 million less a projected fund balance of $126.9 million left the net budget problem of $102.6 million as of June 30, 1983. House File 1555, an omnibus school aids bill was passed by the Legislature on March 19 and signed by the Governor on March 23, 1982 making it Laws 1982 Session Chapter 548. On the last day of the regular session, the Legislature passed House File 2190, a budget balancing bill. House File 2190 became Laws 1982 Session Chapter 641 after the Governor's signature on March 31, 1982. With the passage of Chapter 641, a Department of Finance budget fund balance analysis projected an ending balance of $127.7 million on June 30, 1983. Hopefully, Minnesota was financially on course again, but no one was sure.

Chapter 641 was expected to increase state revenue $69 million by extending the sales tax to candy, soft drinks, etc., an additional tax on on-sale liquor, delayed conformity to federal treatment of capital gains, and other adjustments. It reduced 1981-83 Biennium expenditures $161.4 million through a permanent shift of property tax refund payments, reduction of homestead credits to local government, and appropriation reductions affecting state departments, transportation, education, and health, welfare and corrections. Of particular interest for elementary/secondary education were a $420,000 reduction for the State Department of Education and Section 12. Section 12 changed homestead credit, wetlands credit and reimbursement, native prairie credit and reimbursement, attached machinery aid, and agricultural preserve credit from a 100 percent payment plan to the 85 - 15 percent payment plan. Applying the 85 - 15 plan to these aids shifted an additional $37.8 million into FY 1984 prior year "catch up" payments appropriated for the 1983-85 Biennium.

The total prior year school aid adjustment for FY 1984 at this point in time was $179 million; an increase of $86.2 million over what it would have been had the prior year adjustment remained on the 90 - 10 percent plan applied to the aids listed in the Governor's proposed budget of January 27, 1981.

Provisions of Chapter 548 adjusted aid distribution formulas to bring them in line with appropriation reductions in 1981 Third Special Session Chapter 2 and made other provisions. Chapter 548 provided for the following:

- A new low fund balance aid and levy component was added to the foundation aid program to provide additional revenue to districts with fund balances below $316 per weighted pupil unit (not to exceed $60 per pupil unit) beginning in FY 1984.

- Reductions affecting special education were a) salary reimbursement aid was decreased from 68.8 to 61.0 percent, b) contract reimbursement aid dropped from 60 to 53.3 percent of the difference between the formula allowance and the contract amount, c) supply and equipment reimbursement aid decreased from 50 to 44.4 percent not to exceed $44.40 per student, d) residential aid reimbursement was cut from 60 to 35.7 percent of the difference between cost and the formula allowance, and e) student staff ratios could be increased up to 20 percent during FY 1983.

- Debt service balances must be certified to the county auditor to reduce debt service levies (levy 82 payable 83).

- Districts were authorized to transfer up to $50 per actual pupil unit from the capital expenditure fund to the general fund during FY 1983 (no effect on statewide entitlements).

- The secondary vocational aid formula was reduced from 45 percent to 41.6 percent of salaries and travel and no reimbursement for equipment during FY 1983.

- Secondary vocational handicapped salary reimbursement aid was reduced from 65 to 60 percent and supply equipment and travel reimbursement was reduced from 50 to 46.25 percent.

- Summer school levies not to exceed $20 per actual pupil unit in the regular school year prior to summer programs were authorized.

- The appropriation for the school district cash flow loan fund was increased from $15 million to $35 million.

Resource allocations to elementary/secondary education for the 1981-83 Biennium as of March 31, 1982 are presented in Table 5. Data in Table 5 and Columns 7 and 8 of Table 3 support the following generalizations concerning the impact of decremental budgeting on allocations to elementary/secondary education as of March 31, 1982:

Table 5

Allocations (Entitlements) of Local and State Resources for Minnesota Elementary and Secondary Schools During the 1981-83 Biennium Based on Law: 1982 Chapters 548 and 641 (March 31, 1982) (In Thousands)

	FY 1982	FY 1983	Biennium Total	Source Total	Organization Total	Public/ Private Total	Total Allocation
Total proposed allocation							4,275,679
Public education						4,222,371	
School districts					4,144,385		
Property taxes				1,435,009			
1001[a] Maintenance levy	609,261	818,925	1,428,186				
3001 Transportation levy[b]	28,814	55,341	84,155				
5001 Capital expenditure levy	73,573	88,638	162,211				
7001 Debt service levy	116,589	107,877	224,466				
020 Tax shift (1/6 Pay 83)	0	137,600	137,600				
Taconite adjustment[c]	8,887	8,367	17,254				
Tax replacement aids[d]	(272,783)	(328,826)	(601,609)				
Taconite adjustment[c]	(8,887)	(8,367)	(17,254)				
State aids				2,371,856			
211 Foundation	764,158	596,230	1,360,388				
218 Summer school	0	0	0				
220 School agriculture credit	70,525	84,596	155,121				
226 Capital expenditure equalization	735	471	1,206				
227 Abatement	2,751	2,721	5,472				
241 Emergency	50	0	50				
251 Attached machinery	2,029	2,029	4,058				
253 Homestead credit	193,281	243,248	427,529				
255 Homestead credit taconite	3,678	3,600	7,278				
256 Taconite aid	13,867	16,887	30,754				
258 Wetlands credit	1,062	1,399	2,461				
258 Wetlands reimbursement	376	511	887				
258 Native Prairie credit	40	42	82				
258 Native Prairie reimbursement	14	11	25				
258 Reduced assess credit	4,197	4,941	9,138				
300-320 Teacher mobility	3,287	3,143	6,430				
300-322 Adult education	1,145	1,223	2,368				
300-330-1-2 Council on Quality Education	2,650	2,072	4,722				
300-354 Preschool screening	1,192	758	1,950				
300-357 Bicultural and Indian Education	677	645	1,322				
300-359 Gifted and talented	588	589	1,177				
300-360 Limited English Proficiency	3,025	3,638	6,663				
300-368 Chemical use	988	897	1,885				
304 Transportation[e]	114,123	85,868	199,991				
319 School lunch[f]	4,273	4,569	8,842				
341 Secondary vocational	21,880	19,493	41,373				
345 Secondary vocational handicapped	2,307	2,310	4,617				
360 Special education	107,424	106,743	214,167				
637 Maximum effort loans	5,104	4,396	9,500				
299 Reduction tax/shift	0	(137,600)	(137,600)				
State direct expenditure				337,520			
Employer retirement contributions	164,897	172,623	337,520				
Regional education agencies					1,366		
State aids				1,366			
ECSU appropriations	665	701	1,366				
State education agency					41,620		
State expenditure				41,620			
SDE appropriation	20,653	20,967	41,620				
Other					35,000		
Cash flow loan fund				35,000			
Appropriation	0	35,000	35,000				
Non-Public Education						53,308	
Non-public K-12 schools					53,308		
Property taxes-local districts				7,318			
3001 Transportation levy[g]	2,506	4,812	7,318				
State aids (indirect)				30,913			
213 Shared time	2,561	2,677	5,238				
300-350-1-3 Non public	4,110	4,173	8,283				
304 Transportation[h]	9,924	7,468	17,392				
State aids (direct)				727			
School lunch[i]	352	375	727				
Education expense tax deduction				14,350			
Foregone income taxes[j]	6,150	8,200	14,350				

Footnotes: see Table 1

- Total public resources available for elementary/secondary were $4,240.7 million; $5.1 million less than allocations at the end of the 1981 Third Special Session (excluding the $35 million in the temporary cash flow loan fund).

- The $5.1 million reduction is accounted for by an estimated $5 million drop in state expenditure for school district employer's share of Social Security and Teacher Retirement Association contributions, a $285,000 cut to the State Department of Education and a net increase of $147,000 in state aids.

- There were no changes in net property taxes paid. The $20 million increase in the cash flow loan fund was intended to assist districts facing cash flow problems as a result of the shift in payment of tax credits, reimbursements and aids authorized by Chapter 641.

The March 30, 1982 First Special Session was convened to deal only with unemployment compensation. On April 6, the Legislative Advisory Commission and the Governor agreed to authorize up to $850 million in short-term borrowing. Ten days later Moody's Investor Service of New York dropped the state's credit rating from MIG-1 to MIG-2. In May the State sold $400 million in short-term certificates, bringing the total to $760 million. On May 5 the $219.9 million balance of school aid payments withheld in December 1981 and January 1982 was mailed to school districts.

Little new data about Minnesota's financial condition was publicized as the 1982 election campaigns shifted into high gear. The $350 million in short-term borrowing was repaid, but on July 1 the State sold another $450 million in short-term certificates, bringing the total to $850 million. A Second 1982 Special Session was convened on July 9 to pass the Iron Range Economic Protection Fund. State revenue receipts continued to quietly drop below estimates; August -$19.7 million, September -$16.3 million, October -$31.7 million.

On November 2 the DFL candidate, former Governor Rudy Perpich staged a comeback and the DFL retained control of the Legislature. On November 18 the Department of Finance released a revised revenue forecast of $3,999.5 million for fiscal year 1983; $414.9 million below the $4,414.4 million estimate of March 9, 1982. The March 29, 1982 end-of-session projected balance of $127.7 million had changed to a projected deficit of $312.5 million on June 30, 1983. Incumbent Governor Quie called for a special legislative session on December 7, 1982.

December 13, 1982--The Final Biennium Budget

The 1982 Third Special Session convened to deal with the projected $312.5 million biennium deficit announced on November 18, 1982. A negotiated budget balancing bill, House File 1, was introduced. House File 1 provided for a $368 million budget adjustment by means of $111.4 million in new taxes, $100 million in shifts and $157.4 million in spending

reductions. The bill failed on an 80-50 vote with Independent-Republicans unanimously opposed to the tax increase and 19 Democratic-Farmer-Labor representatives voting against the bill primarily because of a provision requiring government employees to pay an additional 2.5 percent of their salaries to pension plans that would have reduced state expenditures by $77 million.

On December 10, 1982 the Legislature narrowly passed a $352 million budget balancing bill (House File 4). House File 4 provided for $110 million in tax increases, $100 million in shifts, and $142 million in expenditure reduction. The $110 million tax increase consisted of a 3 percent income tax surcharge added to the existing 7 percent surcharge from January 1 to June 30, 1983 ($27 million), a one-cent sales tax increase to 6 percent for the same period ($79 million), and a speed up of business taxes on mergers, acquisition, sale of tax deductions, etc. to conform with federal tax code ($3.8 million). The $100 million in shifts would result from changing the one-sixth levy 1982 payable 1983 shift into FY 1983 to 32 percent and deducting a like amount from school aid payments. Recognizing an additional 16 percent of levy 1982 payable 1983 as revenue for FY 1983 moved $100 million of 1981-83 Biennium obligations into the 1983-85 Biennium; an adjustment which has to be repeated in each subsequent fiscal year. The $142 million spending reduction consisted of $61.6 million from state pension contributions (additional 2 percent payroll deduction), $26.9 from Health, Welfare, and Corrections, $15.5 million from elementary/secondary school aids, $14.0 million (est.) from local governments, $8.7 million from state agencies, $8.6 million from higher education, $5.2 million by reducing allowable rate of increase for medical assistance from 10 percent to 6 percent, and $1.4 million from post-secondary AVTIs. The bill also increased the school district cash flow loan fund from $35 million to $70 million.

The Governor signed House File 4 (Laws 1982 Third Special Session Chapter 1) on December 13, 1982. Had this bill not become law, the Governor would have had to unallot up to the entire $312.5 million to balance the budget. The severity of such a reduction is indicated by the fact that a 28.6 percent across-the-board cut on a $1,093.4 million base amount available as of November 30, 1982 would have been required. The post-session fund balance analysis indicated a projected balance of $40.2 million on June 30, 1983.

Laws 1982 Third Special Session Chapter 1 impacted elementary/secondary education as follows:

- State expenditures for teacher retirement contributions were decreased by 2 percent of annual salaries ($29.8 million) through payroll deductions between January 1 and June 30, 1983.

- It shifted an estimaced $100 million in elementary/secondary aids to property taxes previously designated as revenue for FY 1984 by doubling the one-sixth levy 1982 payable 1983 tax shift.

- Provided for a further general reduction of $15.4 million in aids to elementary/secondary education (total cut to districts including AVTIs, etc. was $17 million).

- Increased the Department of Education cash flow loan fund from $35 million to $70 million.

Data in Table 6 and Columns 9 and 10 of Table 3 support the following generalizations concerning allocations to elementary/secondary education as of December 13, 1982:

- Total public resources for elementary/secondary education were $4,194.8 million (excluding the $70 million temporary cash flow loan fund); $45.9 million less than a comparable figure as of March 31, 1982. Allocations for public elementary/secondary district, ECSU, and State Department services were $4,141.7 million (excluding the loan fund); down $45.7 million from the 1982 regular session. Support for non-public student services was $53.1 million; down $209,000 from March 31, 1982.

- Of the $45.7 million reduction for all services to public school students, $45.1 million was for local districts with $29.8 million in state expenditure for employer share of retirement contribution (overstated because figure includes employees covered by TRA but not serving grades K-12) being shifted to payroll deduction (2 percent). ECSUs were reduced $6,000 and the State Department of Education $556,000 (cuts to elementary/secondary sections plus $255,000 employee retirement contributions shifted to payroll deduction).

- Net property taxes paid for support of elementary/secondary services provided during the 1981-83 Biennium increased $100 million over March 31, 1982 by means of a second tax shift from property tax revenue formerly designated for recognition as revenue during FY 1984. Net property taxes paid were $1,542.3 million including a $7.3 million portion of the transportation levy for support of a non-public transportation.

- Total state aids were $2,289.4 million; $155.5 million less than the allocation as of March 31, 1982. The reduction consisted of state aids covered by the second tax shift plus a $15.5 million general reduction for elementary/secondary services to public and non-public students and includes a $6,000 reduction for the ECSUs.

In summary, the revenue shortfalls had the following effects on public support for elementary/secondary education during the 1981-83 Biennium:

- Net property tax resources allocated to elementary/secondary increased $338.9 million for the 1981-83 Biennium through higher levies and tax shifts. Two major tax increases were 1) Laws 1981 Session Chapter 358 which raised the required basic maintenance levy from 21 to 23 EARC mills ($52.7 million) and 2) Laws 1981 Third Special Session Chapter 2 which authorized recertification of up to 2 additional mills ($50.4 million). Both of these levy increases raised the local property tax share and lowered the State's aid obligation without changing the amount of revenue available to school districts.

Two property tax shifts were 1) Laws 1981 Third Special Session Chapter 2 which shifted one-sixth of the levy 1982 payable 1983 to be recognized as revenue for FY 1983 ($137.6 million) and 2) Laws 1982 Third

Table 6

Allocations (Entitlements) of Local and State Resources for Minnesota Elementary/Secondary Schools During the 1981-83 Biennium Based on Laws 1982 Third Special Session Chapter 1 (December 13, 1982) (In Thousands)

	FY 1982	FY 1983	Biennium Totals	Source Totals	Organization Totals	Public/ Private Totals	Total Allocations
Total proposed allocation							4,264,798
Public education						4,211,699	
School Districts					4,099,275		
Property taxes				1,535,009			
1001[a] Maintenance levy	609,261	818,925	1,428,186				
3001 Transportation levy[b]	28,814	55,341	84,155				
5001 Capital expenditure levy	73,573	88,638	162,211				
7001 Debt service levy	116,589	107,877	224,466				
020 Tax Shift (1/6 pay 83)	0	137,600	137,600				
Tax shift (to 32%)	0	100,000	100,000				
Taconite adjustment[c]	8,887	8,367	17,254				
Tax replacement aids	(272,783)	(328,826)	(601,609)				
Taconite adjustment[c]	(8,887)	(8,367)	(17,254)				
State aids				2,256,586			
211 Foundation	764,158	583,476	1,347,634				
218 Summer school	0	0	0				
220 School agriculture credit	70,525	84,596	155,121				
226 Capital expenditure equalization	735	467	1,202				
227 Abatement	2,751	2,696	5,447				
241 Emergency	49	0	49				
251 Attached machinery	2,029	2,029	4,058				
253 Homestead credit	193,281	243,248	427,529				
255 Homestead credit taconite	3,678	3,600	7,278				
256 Taconite aid	13,867	16,887	30,754				
258 Wetlands credit	1,062	1,399	2,461				
258 Wetlands reimbursement	376	511	887				
258 Native prairie credit	40	42	82				
258 Native prairie reimbursement	14	11	25				
258 Reduced assess credit	4,197	4,941	9,138				
300-320 Teacher mobility	3,287	3,113	6,400				
300-322 Adult education	1,145	1,212	2,357				
300-330-1-2 Council on Quality Education	2,650	2,052	4,702				
300-354 Preschool screening	1,192	752	1,944				
300-357 Bicultural and Indian Education	677	639	1,316				
300-359 Gifted and Talented	588	584	1,172				
300-360 Limited English Proficiency	3,025	3,605	6,630				
300-368 Chemical use	988	889	1,877				
304 Transportation[e]	114,123	84,668	198,791				
319 School lunch[f]	4,273	4,569	8,842				
341 Secondary vocational	21,880	19,316	41,196				
345 Secondary vocational handicapped	2,307	2,289	4,596				
360 Special education	107,424	105,774	213,198				
637 Maximum effort loans	5,104	4,396	9,500				
299 Reduction/tax shift	0	(137,600)	(137,600)				
Reduction/tax shift	0	(100,000)	(100,000)				
State direct expenditure				307,680			
Employer retirement contributions	164,897	142,783	307,680				
Regional education agencies					1,360		
State aids				1,360			
ECSU appropriations	665	695	1,360				
State education agency					41,064		
State direct expenditures				41,064			
SDE appropriations	20,653	20,411	41,064				
Other					70,000		
Cash flow loan fund				70,000			
Appropriation	0	70,000	70,000				
Non-public education						53,099	
Non-public K-12 schools					53,099		
Property taxes-local districts				7,318			
3001 Transportation levy	2,506	4,812	7,318				
State aids (indirect)				30,704			
213 Shared time	2,561	2,612	5,173				
300-350-1-3 Non-public	4,110	4,135	8,245				
304 Transportation[h]	9,924	7,362	17,286				
State aids (direct)				727			
School lunch[i]	352	375	727				
Education expense tax deduction				14,350			
Foregone income taxes[j]	6,150	8,200	14,350				

Footnotes: see Table 1

Special Session Chapter 1 which increased the shift from levy 1982 payable 1983 to 32 percent (additional $100 million). The statutes treat the shifts as accounting changes in revenue recognition with each successive fiscal year using a portion of tax collections previously designated as revenue for the subsequent fiscal year.

- State aid entitlements for public, non-public and regional ECSU elementary/secondary services (including property tax credits and reimbursements) for the 1981-83 Biennium as of December 13, 1982 were $562.5 million less than proposed in the Governor's budget. Of this amount a reduction of $158.5 million was made in the 1981 Regular Session with adjustments from the June 6, 1981 First Special Session. It can be argued that $52.7 million of this reduction was shifted from state-collected resources to the property tax by increasing the basic maintenance levy from 21 to 23 EARC mills. The remaining $105.8 million cannot be described as a "real" reduction because it never existed in an appropriation, but only as part of the Governor's proposal.

The first "real" reduction of state aid appropriations was made in the 1981 Third Special Session. Data in Table 3 indicate a gross reduction in state aid payment obligations of $288.7 million. The one-sixth levy 1982 payable 1983 tax shift covered $137.6 million of the gross reduction, leaving $151.1 million. Specific elementary/secondary aid reductions (excluding aids for AVTIs, community education, county libraries, etc.) in Laws 1981 Third Special Session Chapter 2 totaled $125.7 million. Elementary/secondary items in the $26.9 million general reduction totaled $25.2 million, making a total of $150.9 million. Districts were authorized to recertify up to a two-mill levy to cover part of the reduction by increased property taxes. Subtracting the recertification of $50.4 million leaves a "real" reduction for elementary/secondary of $100.5 million as of January 15, 1982.

The 1982 Regular Session had relatively little impact on state aid entitlements; a net increase of $152,000. The increase was the difference between increases in special education summer foundation aid, transportation aid and Pine Point repairs totalling about $2.8 million and reduced appropriations of $1 million plus an increase (from 1.48 percent to 1.57 percent) of $1.6 million in general reductions affecting elementary/secondary. As of March 31, 1982 the "real" reduction in state aid allocations was about $100.4 million.

State aid payments for elementary/secondary were reduced an additional $115.5 million by Laws 1982 Third Special Session Chapter 1. The state shifted $100 million of the reduction to the property tax by increasing the earlier one-sixth levy 1982 payable 1983 tax shift to 32 percent. The $15.5 million represents a "real" reduction in state aid through a .9 percent increased general reduction, making a total "real" reduction in state aids of $115.8 million for the 1981-83 Biennium.

While no state general fund revenue is earmarked for education, $244.1 million of state collections during the 1981-83 Biennium were disbursed for state aid payments rescinded/restored or delayed from the 1979-81 Biennium. In the 1981 Regular Session $89.5 million in school

aids cut by the Governor were restored. Restoration payment was made in July of FY 1982 along with $154.6 million delayed aid payments for April and May of FY 1981. These transactions had no direct effect on resource allocations for the 1981-83 Biennium, but did impact cash flow by using resources that might otherwise have been available for payment of current aids.

- State direct expenditures for elementary/secondary services were reduced $41.2 million during the biennium. The largest component in the amount was a somewhat overstated $29.8 million in state payments of the employer's share of teacher retirement contributions authorized by Laws 1982 Third Special Session Chapter 1. While state expenditures were reduced, there was no loss in elementary/secondary services because the "cost" was shifted to a 2 percent employee payroll deduction. Laws 1982 Regular Session Chapter 641 made an earlier $5 million adjustment to the appropriation for teacher retirement and social security contributions. The $6.3 million balance of state direct expenditure reduction applied to sections of the State Department of Education concerned primarily with elementary/secondary including the retirement payment shift with portions of the reduction being made in each special and regular legislative session.

- Changing from the 90 - 10 to the 85 - 15 plan increased the prior year adjustment portion of aid entitlement. Increasing prior year adjustments for the second year in a biennium shifts the increase into appropriations for the next biennium. Prior year adjustment for FY 1983 were increased two times, 1) Laws 1981 Session Chapter 358 adopted the 85 - 15 plan and extended it to additional small categorical aids and 2) Laws 1982 Session Chapter 641 extended the 85 - 15 plan to tax replacement aids. Total FY 1983 prior year adjustments to be appropriated in the 1983-85 budget is approximately $179 million including an increase or shift of an estimated $86.2 million over what the 90 - 10 plan applied to the seven major aids would have required.

Conclusions

The following conclusions were based on the findings of the study:

1) The net impact of decremental state budgeting on elementary/secondary education during the 1981-83 Biennium were as follows:

   a) Property taxes increased $103.1 million to cover a portion of the State obligation that was shifted to local educational government due to the state revenue shortfall.

   b) Property tax revenue of $237.6 million scheduled to be recognized as revenue by local districts in FY 1984 was shifted to FY 1983 to be used in lieu of state revenue lost in the shortfall.

   c) State foundation and categorical aids were cut $115.8 million that were not covered by any form of replacement revenue.

d) State obligations for school aid payments in the amount of $86.2 million were shifted to the 1983-85 Biennium by increasing a prior year adjustment provision.

e) State share of total allocations for public elementary/secondary education dropped from 72.8 percent to 61.9 percent based on the Governor's initial biennial budget proposal.

2) Centralizing finance of elementary/secondary education at the state level as Minnesota did in 1971 makes school support more vulnerable to sudden change in the state economy. Impact of the 1981-83 crisis tended to be more immediate and severe in districts which a) received a larger proportion of revenue from state sources and b) had low operating fund balances. An example of evidence supporting this conclusion was the state's establishing a $15 million cash flow loan fund to help hardest hit districts and increasing it to $35 million and finally $70 million as the fiscal crisis became more severe.

3) Resolving who would bear what share of the fiscal crisis' impact were political decisions. One example of evidence supporting the conclusion was the DFL legislative response to the IR Governor's third revised biennium budget of November 24, 1981. The Governor proposed a budget solution consisting of $767.8 million in cuts including a $271.8 million cut in school aids. The DFL, which had closer ties to state teacher organizations, eventually passed a measure that cut school aids by $160.9 million and covered about $137 million of that cut with a property tax shift.

References

Books

Guthrie, James W. (Ed.). School Finance Policies and Practices. Cambridge: Harper and Row, 1980.

Patton, Michael. Qualitative Evaluation Methods. Beverly Hills: Sage, 1972.

Wildavsky, Aaron. The Politics of the Budgetary Process, 2nd edition. Boston: Little, Brown and Company, 1974.

Wirt, Frederick and Michael W. Kirst. The Politics of Education: Schools in Conflict. Berkeley: McCutchan, 1982.

Executive Branch Documents

Governor's Budget January 27, 1981
Governor's Budget Revisions April 15, 1981
Governor's Budget Revisions November 24, 1981

"General Fund Budget Reduction Program Fiscal Year 1981 State of Minnesota" (Department of Finance)

State of Minnesota Financial Report, Year Ended June 30, 1981 (Department of Finance)

State of Minnesota General Obligation Certificates of Indebtedness Series 1982-A. A bond counsel opinion dated May 4, 1982

"Synopsis of Budget Reductions/Finance Legislation" (Department of Finance)

Legislative Documents

1980 Session
House File 1121 - Chapter 607

1981 Session
Senate File 2 - Chapter 1
Senate File 366 - Chapter 13
House File 1421 - Chapter 359
House File 70 - Chapter 358
House File 1443 - Chapter 356
House File 1434 - Chapter 357
House File 553 - Chapter 363
House File 1132
House File 1445

1981 First Special Session
House File 1 - Chapter 1
House File 2 - Chapter 2
House File 3 - Chapter 3
Senate File 2 - Chapter 5

1981 Second Special Session
House File 1 - Chapter 1

1981 Third Special Session
House File 14
House File 1 - Chapter 1
House File 2 - Chapter 2

1982 Session
House File 1555 - Chapter 548
House File 2190 - Chapter 641

1982 Third Special Session
House File 1
House File 4 - Chapter 1

Newspapers

St. Paul Dispatch July 1979 to December 1982

St. Paul Pioneer Press July 1979 to December 1982

Reports

Peek, Thomas R. and Douglas Wilson. Economic Conditions and Changing Government Policies. Minneapolis: CURA, University of Minnesota, 1983.

Sederberg, Charles H. Chronology of Minnesota's Fiscal Crisis July 1, 1979 through December 31, 1982. Occasional Paper. Minneapolis: Center for Educational Policy Studies, University of Minnesota, 1983.

Sederberg, Charles H. Minnesota State Biennium Budget Cycle. Occasional Paper. Minneapolis: Center for Educational Policy Studies, University of Minnesota, 1983.

Sederberg, Charles H. State Revenue Shortfalls and Resource Allocation for Minnesota Elementary/Secondary Education During the 1981-83 Biennium. Occasional Paper. Minneapolis: Center for Educational Policy Studies, University of Minnesota, 1983.